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Lucia A Keegan 07/21/2006 03:15:58 PM From DB/Inbox: Lucia A Keegan

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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

¶1. (U) This is another in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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¶2. (SBU) Finance Minister pushes privatization of Gaz de France: Amid criticism from the left as well as from his own majority party, French Finance Minister Thierry Breton recently reaffirmed his intention to proceed with legislation that would allow for the partial privatization of Gaz de France (GDF). The controversy has its roots in the proposed merger of GDF, currently 80 percent State-owned, with the private Franco-Belgian utility giant Suez. Under existing law, which Breton aimed to have modified, the French government must control at least 70 percent of GDF. Many GOF officials called the prospect of a merger "dead" as recently as June, but Breton has rekindled hopes, arguing that GDF's privatization is necessary for its very survival. "The question," he remarked in an interview, "is whether... we are ready to give GDF the means to carry out its mission (to provide public services) in a time of unprecedented rapid change." In an energy sector dominated by consolidating firms with ever larger economies of scale, the

medium-sized GDF will need to find partners in order to meet the many challenges on the horizon, including record high oil and gas prices, a doubling of demand within 20 to 25 years, and an infrastructure that will require 1.7 trillion euros worth of investment over the coming years. In French political circles, the Socialist Party has been violently opposed to the GOF-proposed measure which would reduce the state's stake in the company to 34 percent (albeit with "golden shares"). However, many in the GOF's own UMP party are also hostile to the idea. French National Assembly deputies called July 19 hearings on the merger a "mascarade" and a campaign of "disinformation". Meanwhile, many UMP parliamentarians continued to show reticence toward the deal. Popular daily newspaper Le Parisien labeled the issue a "thorny case" for the prime minister's office. Opponents have vowed to kill Breton's energy proposal during the legislative process with the addition of 50,000 amendments. The Finance Minister condemned the threat as undemocratic, but pointed out that similar situations had occurred in the past and promised that his allies in the majority would defeat any such effort. The bill goes before the National Assembly on September 7.

¶3. (U) France is feeling the heat: During a heat wave over several days in mid-July, French electricity company, EDF, was compelled to reduce electricity generation at some of its nuclear power stations. As a result, the company asked clients to conserve energy. The weather is being compared to a similar heat wave in the summer of 2003 that claimed the lives of several thousand, particularly many among France's elderly. French health minister Xavier Bertrand attributed nine recent deaths to the heat. Normally a large electricity exporter, EDF has had to urge firms to use less electricity as the heat wave across Europe triggered high demand for power supplies. France is the largest net exporter of electricity in the EU, sending 103.6 Bkwh to its neighbors in 2003. Rarely an importer, EDF actually had to purchase 2,000 megawatt hours of electricity from abroad during a short period in mid-July to make up for its shortfall. Increased use of air conditioners and refrigerators, coupled with lower power output at hydro-electric and nuclear power stations in France, contributed to the stain on demand. The 2,000 MWh France was forced to import was the equivalent capacity of two large nuclear stations. Analysts speculated that the power had come from Germany. EDF Chairman, Pierre Gadonneix, said that the heat wave underlined the need for EDF to invest to ensure energy security. The firm plans to invest 20 billion euros in distribution, transport and production, including a new generation European Pressurized Reactor in Normandy on which construction will begin in late 2006 or early 2007. For other future production investments, EDF said it was concentrating on coastal plants, which cope better with high temperatures than inland plants.

¶4. (U) France may allow return to regulated electricity prices: On July 19, Electricite de France (EDF) Chairman Pierre Gadonneix told a parliamentary committee that he was ready to discuss allowing business customers to switch back to government regulated tariffs from, currently higher, unregulated power prices. However, Gadonneix said that he hoped to minimize the hit on EdF's balance sheet at a time when the company has to finance hefty investment in new power plants. "It's important to find a balance between preserving our capacity to invest in plants and the concerns of small and medium sized businesses, which have opted for deregulation and are faced with strong increases in prices," Gadonneix said an economic affairs committee hearing. The debate over France's two-tier power prices system is heating up because some lawmakers have threatened to reject the proposed privatization of GDF unless the government and EDF help lower the electricity bill of French businesses. Earlier in July, Finance Minister Thierry Breton said he was ready to explore ways to allow business customers to return to regulated prices but insisted any amendment to current rules would have to be sanctioned by European Union antitrust authorities. Large industrial customers won the right to choose their power supplier in 2000. At the time, many of them exercised options to rescind their long-term contracts with EDF because market prices were at 17 euros a megawatt-hour, or about half the level of government-regulated prices. But market prices have climbed steadily because of shrinking spare capacity in Europe and since 2003 have been consistently above regulated prices, leaving some energy-intensive industries heavily pressured by costs. Prices rose further in 2005 with the introduction of greenhouse gas emission

surcharges in France and across Europe.

¶5. (U) Areva CEO in India eyeing future nuclear power deals: French state-owned company Areva, the world's biggest manufacturer of nuclear reactors and provider of nuclear fuel-cycle services, said it would make energy-hungry India one of its "first priorities" once the Indo-US nuclear deal is finalized. India currently produces about 3,360 megawatts or 2.7 percent of its total electricity generation from nuclear power. "As soon as the international framework will allow it, the Indian market will be one of our first priorities," Areva CEO Anne Lauvergeon told a business audience in New Delhi on July 20. Her statement comes in the wake of an accord on technology-sharing to develop civil nuclear energy signed between India and France during a visit here in February 2006 by President Chirac. Areva already has a presence in India through power transmission maker Areva T&D India Ltd., which has said it is hoping to reap the benefits of U.S.-India civilian nuclear cooperation pact. India clearly wishes to promote its own home-grown technical expertise, so as part of Areva's pitch to India, Lauvergeon said Areva's strategy involves "fully recognizing the existing competence and know-how of Indian industry." Moreover, she said that "We expect that a significant share of an 'EPR reactor' will be manufactured here. And there is a potential to source in India some components to other international markets," referring to Areva's next-generation European Pressurised Reactor. Lauvergeon denied that any deals had already been sewn up before the conclusion of the India-US agreement. "We have no agreement in the nuclear (field) with India or Indian companies ... because we are not allowed to ... we are waiting for the international green light," she said.

¶6. (U) Michelin highlights future of transportation and energy challenges: A conference on sustainable mobility, the 2006 Challenge Bibendum, concluded on June 12 in Paris on an optimistic note for the future of road mobility. Sponsored by Michelin, the five-day event involved some 2,500 participants, who discussed the challenges of road mobility, its impact on the environment and technological advances to improve safety. It also addressed energy supply security and diversification, as well as environmental protection and road safety in view of the expected doubling of the world's vehicle population in the next 25 years. The 2006 Challenge Bibendum brought together every form of automotive energy, every type of technology and every kind of vehicle - whether on two, three, four or more wheels. Challenge Bibendum Director, Dr. Patrick Oliva, said that most of the vehicles using alternative fuels that participated in the past Bibendums have demonstrated big improvements in terms of performance and actual road use this year. According to conference organizers, the more than 100 vehicles running on clean energy that participated in the rally survived more than 200 kilometers of varying road and traffic conditions in Paris without problems. Oliva said, "These are the cars that families or individuals can use as everyday rides in the near future. They have improved a lot in terms of speed, range and safety." When French Ecology Minister Nelly Olin visited the conference, she commented that "All credit should be given to the Michelin initiative as it truly helps to reduce automobile pollution. Obviously, things take time but knowing that a multitude of solutions exists is rather reassuring."

Stapleton